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C O N F I D E N T I A L SECTION 01 OF 04 SHANGHAI 000202

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SUBJECT: RESUBMISSION - CROSS-STRAIT TALKS IN NANJING PRODUCE
EXPECTED RESULTS: VIEWS FROM EAST CHINA

REF: A) SHANGHAI 85; B) SHANGHAI 26; C) TAIPEI 500;
D) TAIPEI 494; E) 2008 SHANGHAI 578; F) 2008 SHANGHAI 526;
G) 2008 SHANGHAI 503; H) 2008 SHANGHAI 306

SHANGHAI 00000202 001.2 OF 004

CLASSIFIED BY: CHRISTOPHER BEEDE, POL/ECON CHIEF, US CONSULATE
SHANGHAI, DEPARTMENT OF STATE.

REASON: 1.4 (b), (d)

11. (C) Summary: East China interlocutors said there were no surprises from the third round of cross-Strait SEF-ARATS talks held in Nanjing April 25-26. The three agreements on direct flights, financial cooperation, and anti-crime cooperation mark the continuation of gradual improvement in cross-Strait relations. The agreement on financial cooperation was the highlight, as it promises concrete economic benefits for both sides. Taiwan needs to expand its infrastructure to accommodate more mainland tourists, and it should allow mainland investment in Taiwan, said the interlocutors. Though the Economic Cooperation Framework Agreement (ECFA) was not on the official agenda, there were discussions on the sidelines, they speculated. SEF's Chiang Pin-kung visited several other cities in Jiangsu Province as well as Shanghai, meeting with the Shanghai Mayor and other officials. Interest in the talks among the general public was muted. End summary.

12. (SBU) Poloffs spoke with scholars in Shanghai, Nanjing, and an official from the Taiwan Affairs Office of the Shanghai Municipal Government on April 29 about the recent meeting between Chiang Pin-kung, Chairman of Taiwan's Straits Exchange Foundation (SEF), and Chen Yunlin, Chairman of mainland China's Association for Relations Across the Taiwan Straits (ARATS), which took place in Nanjing, Jiangsu Province April 25-26. Interlocutors included: Wang Hailiang, Director of the Taiwan, Hong Kong, Macao Programs Office, Shanghai Academy of Social Sciences (SASS); Hu Lingwei, Research Fellow, Shanghai Institute for East Asian Studies; Li Leiming, Deputy Director, Taiwan Affairs Office of the Shanghai Municipal Government (Shanghai TAO); Cui Zhiqing, Director of the Taiwan Studies Institute, Nanjing University; Liu Xiangping, Deputy Director of the Taiwan

Studies Institute, Nanjing University; Lin Gang, Professor of Political Science, Shanghai Jiaotong University; and Pan Rui, Professor, Center for American Studies, Fudan University. The reaction of Taiwan entrepreneurs in East China will be reported septel.

No Surprises, But Good Progress

13. (C) The SEF-ARATS talks produced three agreements that would expand cross-Straight direct flights, increase financial cooperation, and provide mutual anti-crime assistance. The two sides also reached agreement in principle to allow PRC investment in Taiwan. The interlocutors uniformly stated that there were no big surprises. Everything was "pre-cooked," said Pan Rui of Fudan University. Though there was "nothing earth-shattering," the interlocutors commented that the talks were still "very positive," had "good results," and were "helpful to overall relations" by further regularizing the cross-Straight dialogue and marking incremental progress in relations. The goal is to have "gradual progress," as there are "many obstacles to rapid progress," said Li Leiming of the Shanghai TAO. Liu Xiangping of Nanjing University agreed that both sides, aware of the complexities of Taiwan's domestic politics, prefer to take small steps at this time.

Expanding Direct Flights

14. (C) Our interlocutors believe the first agreement expanding cross-Straight direct flights from the current 108 to 270 per week will boost tourism on both sides and will be "relatively easy" to implement "very soon." However, they also complained that the increase is not commensurate with rising demand in the PRC, particularly in Shanghai. 40 out of the current 108 flights are based in Shanghai, but under the new agreement, only 56 of the 270 flights will be based in Shanghai, thus lowering Shanghai's overall ratio of direct flights. This is not enough to meet the demand of the 200,000 long-term Taiwan residents in Shanghai, said Li of the Shanghai TAO. The agreement also expands direct

SHANGHAI 00000202 002 OF 004

flight service to six new cities in the mainland - Hefei, Ningbo, Harbin, Nanchang, Guiyang, Jinan - on top of the 21 current airports. Instead of expanding service to places with limited demand, more flights should be added to cities like Shanghai and Nanjing that have a large population of Taiwan businesspeople, argued several interlocutors. (Note: Local Shanghai media reported 18,000 travelers from Shanghai to Taiwan during the first three weeks of April, twice the figure in March. End note.) Wang Hailiang of SASS said the number of cargo flights, which will increase from 30 to 112 per month under the agreement, should also be further expanded in the future. Although Taiwan President Ma Ying-jeou hopes to expand the number of direct passenger flights to 350, the PRC wants to adopt a more gradual approach since it would be difficult to reduce the number of flights later should cross-Straight relations or the economic situation deteriorate, said Li Leiming. Cui Zhiqing of Nanjing University also pointed out that Taiwan would have liked to secure permission to fly to third countries from mainland airports, something the PRC is unwilling to grant at this time as Taiwan flights are officially characterized as "domestic."

Boosting Financial Cooperation

15. (C) The financial agreement that would allow banks to open branches on both sides and facilitate currency exchange services is only a framework, and the details still need to be ironed out, said our interlocutors. The PRC hopes for quick implementation with details to be hammered out in the next 60 days, but full implementation may not happen until the end of this year as the Taiwan side has indicated a need to consult with all its "relevant stakeholders." This financial agreement was the "highlight" of the talks, said several interlocutors, as it will likely provide concrete economic benefits for both sides. "Financing has been a big problem for Taiwan firms in the mainland," said Hu Lingwei, so this agreement will promote

more Taiwan investment in the mainland, thereby helping both Taiwan firms and the PRC's economy. (Note: See Refs A and B for more on financing challenges for Taiwan firms in East China. End note.) One of the key points of this agreement was the establishment of a cooperative financial regulatory mechanism, said Wang Hailiang. The two sides need to establish a framework for the supervision of banks on both sides, and the participation of Lee Jih-chu, Vice Chairwoman of Taiwan's Financial Supervisory Commission, attests to the centrality of this issue, continued Wang.

Anti-Crime Cooperation

¶ 6. (C) Most of our interlocutors lauded the agreement on anti-crime cooperation, under which the two sides would exchange information and provide mutual assistance in investigating criminal cases. Hu Lingwei and Wang Hailiang believe this agreement will benefit Taiwan in particular, as many Taiwan criminals "take advantage of the lack of communication" to flee to the mainland. Lin Gang of Jiaotong University said this agreement is also symbolically important since it is a judicial matter and "touches upon" the issue of sovereignty. Although Taiwan wanted a clearer commitment by the PRC to return criminal suspects to Taiwan in response to formal requests, the PRC promised only to discuss the request with Taiwan authorities, with the decision on whether to return a suspect to be made on a case-by-case basis, said Cui Zhiqing. Our interlocutors believe this agreement will be implemented by the end of 2009.

Opening Up Taiwan to Chinese Investment

¶ 7. (C) The statement on opening Taiwan to investment from the mainland is still only an agreement in principle, and the details need to be worked out, said our interlocutors. "There is still some way to go (to implementation), but at least this opened the window," said Lin Gang. Hu Lingwei thinks it will take some time but is hopeful that Taiwan will eventually relax its restrictions. Wang Hailiang similarly stated that it will take time for Taiwan to decide which industrial sectors to open up to mainland investment, but that Taiwan cannot wait too long

SHANGHAI 00000202 003 OF 004

given its economic predicament. (Note: Our discussions took place before the April 29 announcement that China Mobile has agreed to pay USD 528 million for a 12 percent stake in Taiwan's Far Eastone Telecommunications Co, the first direct investment in Taiwan by a Chinese state-owned company. End note.)

No Official Mention of ECFA

¶ 8. (C) There was no official mention of the Economic Cooperation Framework Agreement (ECFA) during the recent talks in Nanjing, but there may have been some discussion on the sidelines, said our interlocutors. It is still "too early" to discuss this issue, said Lin Gang. He thinks both sides should first work out details of the substantive benefits from such an agreement. Without a clear idea of the benefits for both sides, any official discussion at this stage would only "stir up trouble" in Taiwan, Lin said. Liu Xiangping agreed, saying neither side was adequately prepared to move any further than the three agreements during the recent talks. Many in Taiwan (both the KMT and DPP) are concerned about ECFA's implications for Taiwan's sovereignty, unemployment (fear of influx of mainland workers), and impact on Taiwan's agricultural sector (fear of influx of mainland agricultural imports), said Hu Lingwei. Wang Hailiang and Li Leiming argued that mainland China is willing to discuss ECFA, but that any discussion must be preceded by an internal consensus within Taiwan.

Ball Is In Taiwan's Court

¶ 9. (C) Our interlocutors all believe the PRC has shown much goodwill with the latest SEF-ARATS agreements, and that it is now in Taiwan's hands to fulfill its end of the bargain.

Regarding the expansion of direct flights, they feel Taiwan is not yet fully equipped to handle a large influx of mainland tourists. "Taiwan does not have enough buses, hotels...it does not have the necessary infrastructure" to receive so many mainland tourists, said Hu Lingwei. Regarding PRC investment in Taiwan, Taiwan has to "show its goodwill, its good intentions" by opening up its economy to mainland investors, said Wang Hailiang. Lin Gang believes the question is not whether the agreements will be implemented by Taiwan since the KMT controls the Legislative Yuan, but at what social cost? He foresees many "battles" in Taiwan, as the opposition DPP will likely "take to the streets" to protest these agreements and any further warming of cross-Straight relations.

Participants

¶10. (C) According to our interlocutors, no scholars or businesspeople attended the talks in Nanjing. Academic experts had been invited to attend preparatory meetings, where they could provide suggestions to ARATS, said Cui Zhiqing of Nanjing University. He added that on the PRC side, officials up to the vice-minister level from various Central Government agencies attended the talks. Li Leiming said Shanghai TAO officials participated in the Nanjing talks. The Shanghai TAO also worked together with the Jiangsu TAO, under the guidance of the State Council TAO, to prepare the groundwork for this round of discussions, said Li.

Chiang's Visit to Shanghai and Other East China Cities

¶11. (C) According to Li Leiming, Chiang Pin-kung visited Shanghai after his meeting in Nanjing. He met with Shanghai Mayor Han Zheng and a group of Taiwan businesspeople. The Taiwan entrepreneurs in the mainland were one of the "main driving forces" behind the agenda of this round of talks, said Li and Wang Hailiang. Wang added that Chiang Pin-kung also met with Shanghai Municipal Deputy Party Secretary Yin Yicui in Shanghai to discuss Taiwan's participation in the 2010 Shanghai World Expo. (Note: Jiangsu media reported that Chiang Pin-kung

SHANGHAI 00000202 004 OF 004

also met with Nanjing provincial and municipal leaders as well as the Taiwan business community in Nanjing. He also visited Yangzhou, Suzhou, and Kunshan in Jiangsu Province. End note.)

Comment

¶12. (C) Although our interlocutors praised the recent round of SEF-ARATS talks, they recognize that the current agreements mark "only the start," dealing with the "softer" issues of direct links and economic cooperation. The two sides are still "far apart" on political issues, discussions of which will likely be put off for the foreseeable future. Our interlocutors repeatedly inquired how the United States views improvements in cross-Straight relations. Aside from some academics and Taiwan businesspeople, there is little evident interest in the recent talks among the general public in East China. Graduate students at Jiaotong University in Shanghai told Poloff that neither they nor their classmates paid much, if any, attention to the talks in Nanjing. Liu Xiangping of Nanjing University noted that, despite substantial interest in traveling and studying in Taiwan among his students, Taiwan is generally not much on their minds. Other interlocutors agreed that the general public does "not really care" about the details of these talks. The first round of SEF-ARATS dialogue in June 2008 drew more attention due to its novelty, but since the talks occur regularly now and yield few headline-splashing breakthroughs, the recent talks seemed to elicit only a few yawns. But as one professor stated, "no news is good news" when it comes to cross-Straight relations.

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